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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Economic data released in April show a sharp decline in overall U.S. economic activity, with indicators of consumer spending, retail sales, new orders and shipments of manufactures, housing, employment, factory output, and the index of leading economic indicators recording steep declines.

The real growth rate of the gross domestic product (GDP) for the first quarter was revised downward to an annual rate of 2.7 percent, a sharp deceleration from the 5.1-percent growth rate recorded in the previous quarter. Consumer spending increased at a much slower rate ($16.5 billion) in the first quarter of 1995 compared with an increase of $44.9 billion in the fourth of 1994.

The April data confirm an acceleration of the downward trend. Consumer spending cutbacks in response to interest rate hikes resulted in a decline in U.S. retail sales and in new orders for manufactured goods. Retail sales for April declined by 0.4 percent from the previous month. New orders for manufactured goods decreased by 1.9 percent, following a 0.4-percent decline in March. The April drop was the third consecutive monthly decline in new orders for manufactures and the largest since July 1994. New orders for durable goods decreased by an even greater amount, dropping 4.0 percent, following a 0.2-percent decline in March. This was the third consecutive monthly decline in new orders for durable goods and the largest since a 5.4-percent decrease in December 1991. Within the durable goods category, transportation equipment had the largest decrease (9.3 percent) mainly because of the decline in orders for motor vehicles and parts and for aircraft and aircraft parts. Orders for transportation equipment declined by 2.9 percent in March. The April decline was the third in the last 4 months. Other industry groupings showed a slowdown, notably industrial machinery and equipment, which registered a decrease of 4.3 percent, the first decline since last December, electronic and other electrical equipment, stone, clay and glass products, and primary metals.

Shipments also slowed in April, and inventories mounted. Shipments of durable goods declined by 2.0 percent, the first decline since October 1994. Shipments of transportation equipment had the largest decline (4.1 percent), following 3 consecutive months of decline. Shipments of other durable groups—electronic and electrical equipment, industrial machinery and equipment, and primary metals—also declined. As a result, inventories for manufactured durable goods increased 0.6 percent to $254.7 billion. As inventories piled up, factory output declined, productivity slowed, and unit labor costs rose (see section on productivity and costs).

Reflecting the downward trend, the composite index of leading indicators decreased for the third consecutive month. The index decreased 0.6 percent in April, 0.5 percent in March, and 0.3 percent in February, but remained unchanged in January. Eight of 11 indicators made negative contributions to the index in April. These were the following: average workweek, average weekly initial claims for state unemployment insurance, change in manufacturers' unfilled orders of durable goods in 1987 dollars, manufacturers' new orders for consumer goods and materials in 1987 dollars, change in sensitive materials prices, contracts and orders for plant and equipment in 1987 dollars, vendor performance (slower deliveries diffusion index), and money supply in 1987 dollars. The following 3 of 11 indicators made positive contributions: stock prices, index of consumer expectations, and building permits.

Because of growth deceleration in the first quarter of 1995, several economists voiced concern that the economy is slipping into a recession. A recession, however, seems unlikely at this juncture because changes in the leading index were not of significant size, duration, or scope. Moreover, capital spending and exports are still expected to keep the economy chugging. Tight monetary policy and budget balancing practiced in many industrial countries could, in the short run, thwart growth not only in the United States but also in Europe and Japan. Tight monetary policy in the European Union (EU) has led to a soaring mark, stubbornly high unemployment, high labor costs, and to an exodus of investment to low wage areas in

Eastern Europe. In Japan, tight monetary policy has led to a soaring yen, rising labor costs, and to a lingering decline in GDP bordering on a deflationary dive. Various analysts warned of a looming banking crisis in Japan. Banks are saddled with bad debts estimated at $475 billion, approximately 10 percent of Japan's GDP.

More recently, the Federal Reserve and the Bank of Japan lowered key interest rates to stimulate consumer demand. There are signs that economic activity has started to pick up a little.

Productivity and costs

Productivity measures recently released by the U.S. Bureau of Labor Statistics (BLS) for the first quarter of 1995 show a sharp decline in productivity and output growth and in higher unit labor costs than in the fourth quarter of 1994. Whereas BLS productivity measures describe the relationship between real GDP (1987 prices) and the labor time spent in its production, these measures also reflect the joint effects of all factors of production: technology, capital investment, and organizational and managerial skills. Productivity changes, as measured by output per hour of all persons in the first quarter of 1995, are shown in table 1.

In the business sector, productivity and output slowed sharply in the first quarter of 1995 compared with the fourth quarter of 1994. Productivity increased 0.4 percent in the first quarter, a much slower rate compared with a 4.1-percent gain recorded in the previous quarter. Output advanced 3.2 percent in the first quarter, a lethargic pace compared with the 7.8-percent increase in the fourth. Hours worked increased 2.8 percent compared with an increase of 3.6 percent in the fourth quarter.

Hourly compensation increased 3.9 percent during the first quarter, compared with a 3.1-percent rise in the fourth quarter of 1994. This measure includes wages and salaries, supplements, employer contributions to employee benefit plans, and taxes. Unit labor costs, which reflect changes in hourly compensation and productivity, increased 3.5 percent during the first quarter compared with a decline of 0.9 percent in the fourth quarter of 1994. Real hourly compensation rose by 0.8 percent, virtually the same rise as in the fourth quarter of 1994.[1]

[1] Output measures for business and nonfarm business are based on measures of gross domestic product prepared by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce. Quarterly output measures for manufacturing reflect independent indexes of industrial production prepared by the Board of Governors of the Federal Reserve System.

Nonfarm business

In the first quarter of 1995, productivity and output grew further in the nonfarm business sector (which excludes farm business) than did in the business sector, but still by considerably less than in the previous quarter. Nonfarm productivity rose by 0.7 percent in the first quarter; nonfarm output, by 3.3 percent; and hours worked, by 2.6 percent. In comparison, during the fourth quarter of 1994, productivity had risen by 4.0 percent, reflecting gains of 7.7 percent in output and 3.5 percent in hours worked (table 2). Hourly compensation increased 4.1 percent in the first quarter of 1995, compared with a 3.5-percent increase one quarter earlier. Real hourly compensation rose by 1.0 percent, following an increase of 1.2 percent in the fourth quarter. Unit labor costs rose by 3.4 percent, compared with a 0.6-percent decline during the fourth quarter of 1994.

Manufacturing

In manufacturing, productivity increased 3.6 percent in the first quarter of 1995, as output rose by 6.1 percent and hours worked increased 2.4 percent. In the fourth quarter of 1994, productivity rose by 3.4 percent as output and hours increased 8.0 percent and 4.5 percent, respectively. Hourly compensation of all manufacturing workers increased 4.9 percent during the first quarter. Real hourly compensation rose by 1.7 percent. Unit labor costs rose by 1.2 percent, the first increase since the third quarter of 1993. Table 3 shows productivity measures by quarter from 1993 to 1995 in the business sector; table 4 shows productivity measures in manufactures; and table 5 shows productivity measures in durable manufactures.

Nonfinancial corporations long-term productivity change

As table 5 shows, productivity was 2.6 percent higher for nonfinancial corporations in 1994 than had been in 1993, reflecting an output increase of 6.1 percent, the largest since 1984, when it rose 8.1 percent, and an increase in employee hours of 3.4 percent. The 1994 increase in hourly compensation (2.4 percent) was the smallest increase since 1958, and real hourly compensation fell by 0.1 percent. Total unit costs in 1994 fell by 0.1 percent, reflecting decreases in unit labor costs of 0.2 percent and increases in unit nonlabor costs of 0.2 percent. Unit profits rose at a 12.2-percent annual rate.

Table 1
Productivity and costs: First-quarter 1995 measures, seasonally adjusted annual rates

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
	Percent change from preceding quarter					
Business	0.4	3.2	2.8	3.9	0.8	3.5
Nonfarm business	0.7	3.3	2.6	4.1	1.0	3.4
Manufacturing	3.6	6.1	2.4	4.9	1.7	1.2
Durable	3.8	7.2	3.3	5.1	1.9	1.2
Nondurable	3.2	4.5	1.2	4.4	1.3	1.1
	Percent change from same quarter a year ago					
Business	1.5	4.8	3.3	2.7	-0.2	1.2
Nonfarm business	1.4	4.6	3.2	2.9	0.0	1.4
Manufacturing	4.0	6.7	2.6	2.4	-0.4	-1.5
Durable	4.4	8.0	3.4	2.4	-0.5	-1.9
Nondurable	3.4	5.0	1.5	2.4	-0.5	-1.0

Source: U.S. Bureau of Labor Statistics.

Table 2
Business sector: Productivity and related measures, seasonally adjusted at an annual rate

Year and quarter	Productivity	Output	Hours of all persons	Compensation per hour	Real compensation per hour	Unit labor costs	Unit nonlabor payments	Implicit price deflator
	Percent change from previous quarter at annual rate							
1993:								
Jan.-Mar	-1.9	0.6	2.5	2.6	-0.4	4.6	-2.0	2.3
Apr.-June	0.6	4.2	3.6	3.1	0.1	2.5	0.3	1.7
July-Sept	3.3	4.0	0.7	3.0	1.3	-0.3	2.1	0.6
Oct.-Dec	5.7	8.6	2.8	2.4	-0.8	-3.1	9.4	1.2
ANNUAL	1.5	3.8	2.2	3.6	0.6	2.0	1.7	1.9
1994:								
Jan.-Mar	2.9	5.5	2.5	6.3	4.1	3.3	-1.7	1.5
Apr.-June	-2.0	3.7	5.9	0.2	-2.3	2.3	5.8	3.5
July-Sept	3.7	4.5	0.8	3.6	0.0	-0.2	5.9	2.0
Oct.-Dec	4.1	7.8	3.6	3.1	0.9	-0.9	3.4	0.7
ANNUAL	2.5	5.5	2.9	3.2	0.6	0.7	3.6	1.7
1995:								
Jan.-Mar	0.4	3.2	2.8	3.9	0.8	3.5	-1.2	1.8
	Percent change from corresponding quarter of previous year at annual rate							
1993:								
Jan.-Mar	1.5	3.3	1.8	4.3	1.1	2.8	0.7	2.0
Apr.-June	1.4	3.8	2.4	4.1	0.9	2.7	0.6	1.9
July-Sept	1.3	3.6	2.3	3.3	0.5	2.0	3.1	2.4
Oct.-Dec	1.9	4.3	2.4	2.8	0.0	0.9	2.4	1.4
ANNUAL	1.5	3.8	2.2	3.6	0.6	2.0	1.7	1.9
1994:								
Jan.-Mar	3.1	5.6	2.4	3.7	1.1	0.6	2.5	1.2
Apr.-June	2.4	5.4	3.0	3.0	0.5	0.5	3.8	1.7
July-Sept	2.5	5.6	3.0	3.1	0.2	0.6	4.8	2.0
Oct.-Dec	2.1	5.4	3.2	3.3	0.6	1.1	3.3	1.9
ANNUAL	2.5	5.5	2.9	3.2	0.6	0.7	3.6	1.7
1995:								
Jan.-Mar	1.5	4.8	3.3	2.7	-0.2	1.2	3.4	2.0

Note.—Business output is based on GDP in 1987 dollars; labor input is based on BLS current employment statistics.

Source: Bureau of Labor Statistics, Productivity and costs, U.S. Department of Labor, 95-158.

Table 3
Manufacturing sector: Productivity and related measures, seasonally adjusted at an annual rate

Year and quarter	Productivity	Output	Hours of all persons	Compensation per hour	Real compensation per hour	Unit labor costs
	Percent change from previous quarter at annual rate					
1993:						
Jan.-Mar	3.7	6.3	2.6	-2.0	-4.9	-5.5
Apr.-June	2.4	1.3	-1.1	6.0	2.9	3.5
July-Sept	3.0	3.0	0.0	3.9	2.2	0.9
Oct.-Dec	6.0	6.9	0.9	3.9	0.6	-2.0
ANNUAL	3.2	4.1	0.8	3.3	0.3	0.1
1994:						
Jan.-Mar	6.4	7.4	1.0	4.0	1.8	-2.3
Apr.-June	5.6	7.2	1.5	-1.4	-3.9	-6.7
July-Sept	3.5	5.6	2.0	3.0	-0.5	-0.5
Oct.-Dec	3.4	8.0	4.5	3.4	1.1	0.0
ANNUAL	4.9	6.2	1.2	2.8	0.2	-2.0
1995:						
Jan.-Mar	3.6	6.1	2.4	4.9	1.7	1.2
	Percent change from corresponding quarter of previous year at annual rate					
1993:						
Jan.-Mar	2.9	4.2	1.3	3.3	0.1	0.4
Apr.-June	3.1	3.7	0.6	3.6	0.5	0.5
July-Sept	3.2	4.0	0.7	3.5	0.7	0.3
Oct.-Dec	3.8	4.4	0.6	2.9	0.2	-0.8
ANNUAL	3.2	4.1	0.8	3.3	0.3	0.1
1994:						
Jan.-Mar	4.4	4.6	0.2	4.4	1.9	0.0
Apr.-June	5.3	6.1	0.8	2.6	0.2	-2.5
July-Sept	5.4	6.8	1.3	2.4	-0.5	-2.9
Oct.-Dec	4.7	7.1	2.2	2.2	-0.4	-2.4
ANNUAL	4.9	6.2	1.2	2.8	0.2	-2.0
1995:						
Jan.-Mar	4.0	6.7	2.6	2.4	-0.4	-1.5

Source: Bureau of Labor Statistics, U.S. Department. of Labor, 95-158.

Table 4
Durable manufacturing sector: Productivity and related measures, seasonally adjusted at an annual rate

Year and quarter	Productivity	Output	Hours of all persons	Compensation per hour	Real compensation per hour	Unit labor costs
	Percent change from previous quarter at annual rate					
1993:						
Jan.-Mar	5.5	8.5	2.8	-4.8	-7.7	-9.8
Apr.-June	3.7	1.8	-1.9	5.6	2.6	1.9
July-Sept	3.0	3.9	0.8	3.4	1.7	0.3
Oct.-Dec	9.4	11.2	1.7	4.4	1.1	-4.6
ANNUAL	4.5	5.4	0.8	2.8	-0.2	-1.7
1994:						
Jan.-Mar	7.3	9.5	2.0	4.4	2.3	-2.7
Apr.-June	5.3	7.1	1.7	-2.3	-4.7	-7.2
July-Sept	4.8	7.8	2.9	2.7	-0.8	-1.9
Oct.-Dec	3.6	9.7	5.9	4.1	1.8	0.5
ANNUAL	5.9	8.0	2.0	2.7	0.1	-3.0
1995:						
Jan.-Mar	3.8	7.2	3.3	5.1	1.9	1.2
	Percent change from corresponding quarter of previous year at annual rate					
1993:						
Jan.-Mar	4.2	5.3	1.0	3.0	-0.1	-1.2
Apr.-June	4.3	4.8	0.4	3.1	0.0	-1.1
July-Sept	4.3	5.2	0.8	2.9	0.1	-1.3
Oct.-Dec	5.4	6.3	0.8	2.1	-0.7	-3.2
ANNUAL	4.5	5.4	0.8	2.8	-0.2	-1.7
1994:						
Jan.-Mar	5.8	6.5	0.7	4.4	1.9	-1.3
Apr-June	6.2	7.9	1.6	2.4	0.0	-3.6
July-Sept	6.7	8.9	2.1	2.3	-0.6	-4.1
Oct.-Dec	5.2	8.5	3.1	2.2	-0.4	-2.9
ANNUAL	5.9	8.0	2.0	2.7	0.1	-3.0
1995:						
Jan.-Mar	4.4	8.0	3.4	2.4	-0.5	-1.9

Source: Bureau of Labor Statistics, U.S. Department of Labor, 95-158.

Table 5
Nonfinancial corporations: Annual changes in productivity and related measures, 1985-94

Measure	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Productivity	1.0	2.6	1.7	1.9	-1.6	1.1	2.0	3.0	3.0	2.6
Output	3.5	3.2	4.4	5.4	1.3	1.1	-1.1	3.2	5.0	6.1
Hours	2.5	0.5	2.7	3.4	2.9	-0.1	-3.1	0.1	2.0	3.4
Hourly compensation	4.1	4.7	3.2	4.1	3.4	5.3	4.8	4.6	3.0	2.4
Real hourly compensation	0.5	2.8	-0.5	0.0	-1.3	-0.1	0.6	1.6	0.0	-0.1
Unit labor costs	3.1	2.0	1.4	2.2	5.1	4.1	2.7	1.6	0.0	-0.2
Unit nonlabor cost	1.2	2.4	0.1	3.8	6.1	3.0	3.7	-2.1	-1.9	0.2
Total unit cost	2.5	2.1	1.0	2.6	5.4	3.8	3.0	0.5	-0.5	-0.1
Unit profits	-0.2	-10.8	14.7	6.6	-8.2	-0.6	-1.7	7.6	14.0	12.2
Implicit price deflator	2.3	0.8	2.2	3.0	4.1	3.4	2.6	1.1	0.8	1.1

Note.—Nonfinancial corporate output is equal to GDP in 1987 dollars minus output of nonprofit institutions, output of employee household, output of unincorporated business, and the output of corporations engaged in banking, finance, stock, and commodity trading and credit, and insurance companies.

Source: Bureau of Labor Statistics, U.S. Dept. of Labor, 9-158.

U.S. Economic Performance Relative to Other Group of Seven Members

Economic Growth

The annualized rate of U.S. real GDP growth in the first quarter of 1995 was 2.7 percent, down from the 5.9-percent rate registered in the fourth quarter of 1994. The annualized rate of real GDP growth in the first quarter of 1995 was 2.7 percent in the United Kingdom, 0.7 percent in Canada, and 2.8 percent in France. The real GDP growth rate in the fourth quarter was 3.0 percent in Germany and 0.1 percent in Italy. In the fourth quarter, Japan's GDP declined at an annual rate of 3.4 percent.

Industrial Production

U.S. industrial production fell by 0.2 percent in May, following a revised decline of 0.5 percent in April and of 0.2 percent in March 1995. The May decline reflects a 3.9-percent drop in the production of motor vehicles and parts. In May 1995, industrial production was 3.1 percent higher than a year ago. Capacity utilization contracted by 0.5 percent to 83.7 percent but was 3.2 percent higher than a year ago. Capacity utilization in manufacturing fell in May by 0.5 percent over April but was 3.6 percent higher than a year ago.

Other Group of Seven (G-7) member countries reported the following growth rates of industrial production. For the year ending April 1995, Japan reported an increase of 6.7 percent, and the United Kingdom reported an increase of 2.6 percent. For the year ending March 1995, Italy reported an increase of 8.7 percent; Canada, of 6.6 percent; and France, of 5.9 percent. For the year ending February 1995, Germany reported an increase of 4.6 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) rose by 0.3 percent in May, following an increase of 0.4 percent in April. For the 12-month period ended in May, the CPI-U increased 3.2 percent.

During the 1-year period ending May 1995, prices increased 1.6 percent in France, 2.2 percent in Germany, and 5.5 percent in Italy. During the 1-year period ending April 1995, prices increased 2.5 percent in Canada and 0.2 percent in Japan.

Employment

The U.S. unemployment rate remained virtually unchanged in May at 5.7 percent. The number of nonfarm payroll jobs declined by 101,000, with much of the decrease in manufacturing and construction. The jobless rate for Hispanics was 10.0 percent; rates for other groups were as follows: adult men (5.1 percent), adult women (4.8 percent), teenagers (17.6 percent), whites (5.0 percent), and blacks (9.9 percent).

In other G-7 countries, unemployment in May 1995 was 9.4 percent in Canada, 12.2 percent in France, 8.2 percent in Germany, 12.4 percent in Italy, 3.2 percent in Japan, and 8.3 percent in the United Kingdom.

Forecasts

Forecasters expect real growth in the United States to average around 2.1 percent (annual rate) in the second quarter of 1995 and then to accelerate to an average of 2.3 percent (annual rate) in the remainder of the year. Factors that may restrain growth in 1995 include the impact of high interest rates on housing and on consumer spending, the large inventory overhang, and the contractionary impact of the decline in government spending. Table 6 shows macroeconomic projections by six major forecasters for the U.S. economy from April to December 1995 and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of about 5.6 percent for the remainder of 1995. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.8 percent in the three remaining quarters of 1995. The slowdown in general economic activity during 1995 is expected to keep inflation down and unemployment high.

Table 6
Projected changes of selected U.S. economic indicators, by quarters, Jan.-Dec. 95
(Percent)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc. (D.R.I.)	Wharton WEFA Group	Mean of 6 forecasts
				GDP current dollars			
1995:							
Jan.-Mar.	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Apr.-June	7.1	5.5	4.4	4.5	3.7	3.6	4.8
July-Sept.	7.7	6.4	4.4	5.2	3.1	5.6	5.4
Oct.-Dec.	7.4	5.9	3.9	5.1	3.9	5.0	5.2
				GDP constant (1987) dollars			
1995:							
Jan.-Mar.	2.8	2.8	2.8	2.8	2.8	2.8	2.8
April-June	3.4	2.0	2.2	2.0	1.1	2.1	2.1
July-Sept.	4.6	2.5	1.8	2.5	0.9	2.4	2.4
Oct.-Dec.	4.3	2.0	1.6	2.4	1,7	2.0	2.3
				GDP deflator index			
1995:							
Jan.-Mar.	2.2	2.2	2.2	2.2	2.2	2.2	2.2
April-June	3.5	3.4	2.1	2.5	2.5	1.5	2.6
July-Sept.	3.0	3.8	2.5	2.6	2.2	3.1	2.9
Oct.-Dec.	3.0	3.7	2.2	2.7	2.2	2.9	2.8
				Unemployment, average rate			
1995:							
Jan.-Mar.	5.5	5.5	5.6	5.5	5.5	5.5	5.5
April-June	5.6	5.4	5.7	5.6	5.7	5.7	5.6
July-Sept.	5.5	5.4	5.8	5.7	5.7	5.8	5.6
Oct.-Dec.	5.2	5.5	6.0	5.8	5.7	5.9	5.7

Note.—Except for the unemployment rate, percentage changes in the forecast represent annualized rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: May 1995.

Source: Compiled from data provided by the Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of $64.0 billion and imports of $75.4 billion in April 1995 resulted in a goods and services trade deficit of $11.4 billion, $1.6 billion more than the March deficit. The April 1995 deficit was $2.6 billion more than the deficit registered in April 1994 ($8.8 billion) and was $2.0 billion higher than the average monthly deficit registered during the previous 12 months ($9.4 billion).

The April 1995 trade deficit on goods was $16.5 billion, $1.8 billion higher than the March deficit. The April services surplus increased to $5.1 billion from $4.9 billion in March.

The seasonally adjusted U.S. trade in goods and services, in billions of dollars, as reported by the U.S. Department of Commerce is shown in table 7. Nominal export changes and trade balances for specific major commodity sectors are shown in table 8. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 9, and U.S. trade in services by major category is shown in table 10.

Table 7
U.S. trade in goods and services, seasonally adjusted, Mar.-Apr. 95

(Billion dollars)

	Export		Imports		Trade balance	
Item	Apr. 95	Mar. 95	Apr. 95	Mar. 95	Apr. 95	Mar. 95
Trade in goods (BOP basis)						
Current dollars						
Including oil	46.9	47.8	63.4	62.5	-16.5	-14.7
Excluding oil	47.0	47.9	58.1	57.0	-11.1	-9.1
Trade in services (*current dollars*)	17.1	17.0	11.9	12.1	5.1	4.9
Trade in goods and services (*current dollars*)	64.0	64.8	75.3	74.6	-11.4	-9.8
Trade in goods (Census basis) 1987 dollars	45.5	46.8	59.5	59.2	-14.0	-12.4
Advanced-technology products (not seasonally adjusted)	11.1	12.4	9.2	10.2	1.9	2.2

Note.—Data on goods trade are presented on a Balance-of-Payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the Census Bureau. The major adjustments on BOP basis exclude military trade but include nonmonetary gold transactions, and estimates of inland freight in Canada and Mexico, not included in the Census Bureau data.

Source: *U.S. Department of Commerce News (FT 900)*, June 1995.

Table 8
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan.-Apr. 1995

Sector	Exports		Change		Share of total, Jan.-Apr. 1995	Trade balances, Jan.-Apr. 1995
	Jan.-Apr. 1995	Apr. 1995	Jan.-Apr. 1995 over Jan.-Apr. 1994	Apr. 1995 over Mar. 1995		
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	11.0	2.6	14.6	-21.2	5.8	-7.1
Airplane	5.1	1.7	-32.0	6.2	2.7	3.8
Airplane parts	3.2	.8	0	-11.1	1.7	2.4
Electrical machinery	16.3	4.1	16.4	-8.9	8.7	-5.7
General industrial machinery	7.8	1.9	16.4	-13.6	4.1	-0.2
Iron & steel mill products	1.4	.3	27.3	-25.0	0.7	-3.1
Inorganic chemicals	1.5	.4	25.0	0.9	0.8	0
Organic chemicals	5.4	1.4	35.0	-6.7	2.9	0.9
Power-generating machinery	6.8	1.7	3.0	0.0	3.6	-0.2
Scientific instruments	6.0	1.5	13.2	-11.8	3.2	2.3
Specialized industrial machinery	7.4	2.0	21.3	00.0	3.9	0.8
Telecommunications	5.9	1.4	25.5	-17.6	3.1	-4.6
Textile yarns, fabrics, and arts	2.4	.6	20.0	-14.3	1.3	-0.9
Vehicle parts	7.8	1.9	13.2	-13.6	4.1	0.9
Other manufactured goods[1]	10.0	2.6	14.9	8.3	5.3	-3.7
Manufactured exports not included above	47.0	12.0	13.0	-10.4	25.0	-39.8
Total manufactures	145.0	36.9	12.5	-9.1	77.0	-54.2
Agriculture	18.5	4.4	29.4	-12.0	9.8	8.3
Other exports not incl.above	24.7	6.3	28.6	-6.0	13.2	-1.9
Total exports of goods	188.2	47.6	15.9	-9.0	100.0	-47.8

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to the totals shown.

Data are presented on a Census basis.

Source: *U.S. Department of Commerce News (FT 900)*, June 1995.

Table 9
U.S. exports and imports of goods with major trading partners, Jan. 1994-Apr. 1995
(Billion dollars)

	Exports			Imports		
Country/area	Apr. 95	Jan.-Apr. 95	Jan.-Apr. 94	Apr. 95	Jan.-Apr. 95	Jan.-Apr. 94
North America	13.8	56.7	51.2	16.8	67.5	54.1
Canada	10.6	42.3	35.5	12.1	47.8	39.0
Mexico	3.2	14.4	15.7	4.7	19.7	15.1
Western Europe	11.8	44.3	39.8	12.2	46.3	40.0
European Union	11.0	40.8	36.0	11.1	42.1	36.7
Germany	1.9	7.3	6.4	3.2	11.5	9.6
European Free-Trade Association (EFTA)[1]	0.5	2.4	2.6	0.9	3.3	2.7
Former Soviet Union/Eastern Europe	0.4	1.6	1.7	0.7	2.6	1.6
Former Soviet Union	0.3	1.0	1.2	0.5	1.9	1.0
Russia	0.2	0.8	0.9	0.4	1.6	0.8
Pacific Rim Countries	14.4	56.9	46.4	22.9	89.3	77.8
Australia	0.8	3.5	2.9	0.3	1.1	1.0
China	0.9	3.8	2.9	3.1	12.5	9.9
Japan	5.3	20.4	17.2	11.2	41.9	37.7
NICs[2]	5.8	23.4	18.4	6.0	23.9	21.0
South/Central America	4.2	16.1	12.5	3.2	13.4	11.5
Argentina	0.3	1.4	1.5	0.2	0.5	0.5
Brazil	1.1	3.9	2.3	0.6	2.8	2.6
OPEC	1.4	6.3	6.0	2.6	11.0	8.7
Total	47.6	188.2	162.4	59.8	236.0	199.3

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.
[2] The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.
Note.—Country/area figures may not add to the totals shown due to rounding. Exports of certain grains, oilseeds and satellites are excluded from country/area exports but included in total export table. Also some countries are included in more than one area. Data are presented on a U.S. Census Bureau basis.

Source: *U.S. Department of Commerce News (FT 900)*, June 1995.

Table 10
Nominal U.S. exports and trade balances of services, by sectors, Jan. 1994-Apr. 1995, seasonally adjusted

	Exports		Change	Trade balances	
	Jan.-Apr. 95	Jan.-Apr. 94	Jan.-Apr. 95 over Jan.-Apr. 94	Jan.-Apr. 95	Jan.-Apr. 94
	Billion dollars		Percent	Billion dollars	
Travel	20.2	19.6	3.1	5.3	5.3
Passenger fares	6.0	5.7	5.3	1.6	1.6
Other transportation	9.1	8.2	11.0	-0.9	-0.8
Royalties and license fees	8.1	7.1	14.1	6.2	5.1
Other private services[1]	20.1	19.2	4.7	7.9	7.4
Transfers under U.S. military sales contracts	4.1	3.6	13.9	0.8	0.0
U.S. Govt. miscellaneous services	0.3	0.3	0	-0.6	-0.6
Total	67.9	63.7	6.6	20.3	18.0

[1] "Other private services" consists of transactions with affiliated and unaffiliated foreigners. These transactions include educational, financial, insurance, telecommunications, and such technical services as business, advertising, computer and data processing, as well as such other information services, as engineering, consulting, etc.
Note.—Services trade data are on a Balance-of-Payments (BOP) basis. Numbers may not add to totals because of seasonal adjustment and rounding.

Source: *U.S. Department of Commerce News (FT 900)*, June 1995.

INTERNATIONAL TRADE DEVELOPMENTS

Cuba's Economic Liberalization

Cuba's economic relations with Mexico, Canada, and with several other countries are growing as Cuba institutes new economic reforms. Several laws have been introduced to reduce Cuba's budget deficit, rationalize public enterprises, cut subsidies, encourage private businesses, establish a single currency and overhaul the tax system. Other laws are under study by Cuban authorities to liberalize Cuba's economy and to encourage more foreign investment.

According to official Cuban resources, foreign ventures currently operate in 26 economic sectors of Cuba representing total foreign investment of more than $1.5 billion. In all, Cuba did business with more than 170 companies from 36 countries. For example, Sherrit Inc. of Canada has invested in nickel mines; Picagnol of Belgium, in the textile industry; and Mexican Domos, in telecommunications.

The leading investors are from Canada, China, France, Mexico, and Spain, with investments in tourism, mining, communications, petroleum, light industries and in other areas. Mexico's economic relations with Cuba are mainly in the area of air travel and communications. Canadian investment in Cuba has flowed into oil and mineral projects, attracted by recent Cuban economic policy decisions permitting foreign joint ventures.

Cuba's total trade with the world reached $3.2 billion in 1994. Spain, Canada, France, and the Netherlands were Cuba's largest trading partners, followed by Italy, Japan, the United Kingdom, and Germany.

Beset by the worst economic crisis of the past 30 years, Cuba has enacted a series of reforms over the past several years. Constitutional reforms approved in 1992 put an end to the state monopoly on foreign trade by recognizing mixed businesses, societies, and economic associations. Laws have been instituted to allow self-employment and to encourage private businesses. Since the September 1993 approval of Law 41, which allows small private businesses to operate in some 100 selected occupations, 170,000 Cubans have been given licenses to work on their own. In 1994, Cuba legalized the holding of foreign currency, allowed private business in several sectors, increased taxes and tariffs and imposed new taxes, eliminated grants, and opened the agricultural sector to supply and demand forces. According to analysts, an announced "labor rationalization plan" to slash inefficient state-run industries and the possibility of broadening the list of activities permitted under Law 41 mean that the ranks of self-employed people could swell to 350,000. A program of rationalization of state enterprises now underway is expected to result in the possible separation of half a million workers. Many of those who lose their jobs will face the option of being self-employed or of becoming agricultural workers under a government land distribution scheme that offers the use of land to any family willing to move to the rural areas.

Vice President Carlos Lage announced in November 1994 that foreign investment would be allowed in "all productive sectors," including the sugar industry, real estate, and the internal market. Cuba's National Assembly approved a mining law in December 1994 designed to assure security of foreign investments. News reports state that more than 1,000 square miles of concessions already have been granted to companies from about a dozen countries for the extraction of mineral products, ranging from nickel to gold.

Already these changes seem to have beneficial effects. Agricultural and oil production are rising, as are foreign investment in tourism, communication, and mining. Tax hikes and subsidy cuts have already reduced the budget deficit by 72 percent. Cuba's opening to foreign investment and the implementation of a package of measures to eliminate imbalances in domestic finances resulted in an increase of 0.7 percent in the GDP in 1994, after 6 straight years of stagnation. Cuban economists predict the economy will grow by as much as 2 percent this year.

Published news reports indicate that small signs of recovery are evident across the island: there is more food, more traffic, and more electricity. Free-market principles are starting to nudge out Marxist economic principles. Cubans are working at odd jobs to make a living independent of the government. Farmers are bringing surplus fruits and vegetables to the cities to sell at market prices. The opening up of Cuba's crucial sugar industry to foreign investment should improve next year's sugar harvest by bringing in much-needed fertilizer.

Cuba is expected to institute additional free-market reforms to help in its economic recovery. Reportedly under consideration are measures to reduce excess money supply, establish a single currency, and restructure state enterprises. Hikes in general prices and public utility rates will be gradually applied to reduce the country's liquidity. A new tax system designed to restructure Cuba's financial system is also part of the current package of reforms and is considered by economists to be indispensable for the island's economic recovery. To lure more investors, Cuba's national assembly is expected to consider a new foreign investment law next June. The legislation will probably speed up the approval process by allowing lower level governmental officials to make decisions on individual investments. Octavio Castilla, vice minister of foreign investment, was reported to have said that, in some cases, the law will allow investors to hold 100 percent of the stock of foreign ventures in Cuba and to allow flexible handling of labor-management issues.

Despite signs of interest from more than 200 U.S. companies, the United States remains absent from the list of nations seeking investment opportunities in Cuba. Since early 1960, the United States has imposed a trade embargo against Cuba. In recent years, various pieces of U.S. legislation — the Mack Amendment to the Export Administration Act of 1990, and the Cuba Democracy Act of 1992 — have intended to ban trade with Cuba by foreign subsidiaries of U.S. companies. At present, a bill is before the U.S. Congress that would ban imports into the U.S. of sugar syrup and molasses from countries that import sugar from Cuba. The proposed legislation would also bar from the United States officers of corporation or individuals that own or rent property in Cuba that was seized from people who are now Americans. Meanwhile, European, Canadian, Asian, and Latin American businesses see the absence of U.S. competition as one of the most attractive aspects of investment in Cuba. "This is virgin land," said Jean Poniatowski, vice president of the national French Heritage Council, after visiting Cuba in March with a large business delegation.

NAFTA's First Year: Commerce Grows and Institutions Take Shape, But Numerous Technical Problems Arise

With the recent launch of negotiations with Chile on NAFTA accession and the Congressional consideration of fast-track legislation, interest in how the North American Free Trade Agreement (NAFTA) is working is high. A review of NAFTA's inaugural year reveals that it was marked by vigorous trade and investment expansion but also by some friction as progress on implementing NAFTA-related commitments proved fitful and frustration over technical obstacles to trade grew. Much of 1994's policy activity was devoted to establishing NAFTA-related institutions and resolving start-up difficulties. Nevertheless, NAFTA appears to have served as a vehicle for governmental cooperation on a variety of regulatory matters and to have provided a valuable context for resolving both new and long-standing problems. These and other findings are reported in the USITC's forthcoming *Year in Trade 1994*. The report will be available in late July.

Trade among NAFTA partners expanded vigorously in 1994. The expansion was consistent with recent trade patterns and with testimony to the continued integration of the U.S. economy with that of Mexico and Canada. U.S. exports to Mexico grew at twice the rate of U.S. exports to other markets (though at a somewhat slower pace than Mexico's overall imports), and Mexico's exports to the United States rose slightly faster than its exports to the rest of the world. Mexico's trade with Canada, meanwhile, expanded at an even faster clip, though from a much smaller base.

Figures on the number of workers applying for U.S. NAFTA-related adjustment assistance suggest that, if the Administration's estimates are accurate, the number of U.S. jobs that were supported by NAFTA-induced exports were by far higher than the number of jobs lost to competition with Mexico and Canada during NAFTA's inaugural year. The Clinton Administration estimates that some 100,000 jobs were created as a result of expanded U.S. exports to Mexico in 1994—a finding disputed in some quarters. As of yearend 1994, 17,320 workers had been certified under the U.S. NAFTA Transitional Adjustment Assistance program, most of them (88 percent) in the manufacturing sector. Mexico was the source cited in 65 percent of the certified cases. Seven States accounted for nearly two-thirds of the workers certified in 1994—New York, Pennsylvania, Georgia, Washington, Texas, Florida, and Tennessee. Most of the certified firms were small, nonunionized operations in such industries as apparel, paper, primary metals, industrial machinery and equipment, electronic and other electric equipment, and instruments and related products.

Much of 1994's NAFTA-related policy activity was devoted to establishing the institutions, rules, and procedures necessary for NAFTA itself to fully function as a legal instrument. Doing so involved both domestic and cooperative measures by the three

NAFTA parties. On the cooperative level, trade ministers from the NAFTA countries launched committees and working groups established under NAFTA's auspices, and environment and labor ministers launched a series of cooperative efforts.

Nearly all NAFTA committees and working groups began operation in 1994. Those that did not meet in 1994 had little basis on which to proceed. Their primary activities during the year were exchanging information, setting work plans, and anticipating and addressing a variety of technical and administrative matters that arose after the agreement's inception.

Even so, a variety of developments raised tensions among the three NAFTA parties during NAFTA's first year. A long series of technical problems and apparent lapses, mostly involving Mexico, arose in 1994, disrupting trade and causing frustration to U.S. businesses. U.S. and Canadian negotiators spent much of 1994 seeking to resolve long-standing disputes over commodities, such as lumber, wheat, and dairy products, and began wrangling over proposed Canadian restrictions on U.S. broadcasters and magazines (see related article in this issue). Mexico objected to several U.S. actions, such as the imposition of local-content labeling requirements for automobiles, a continued embargo on Mexican tuna under the Marine Mammal Protection Act, dumping duties on Mexican cement, and the U.S. request for extensive public participation in NAFTA dispute settlement procedures.

Many of the initial problems experienced under NAFTA appear to represent start-up difficulties, lack of administrative capacity, and poor communication (see table 11). There are, however, several areas where NAFTA rules proved inadequate to prevent the imposition of new technical barriers and other areas, such as export subsidies, where lingering differences over policy flared up. The greatest degree of conflict occurred in the areas of customs administration; quota allocation, particularly for agricultural goods; product standards, testing procedures, and labelling requirements; and of sorting out the relationship between NAFTA and other international agreements. Industries most affected by the problems that occurred during 1994 included sensitive agricultural sectors (grains, meat, dairy), consumer products, and transportation services. Despite such problems, U.S.-Mexico trade in automobiles and parts, electronics, consumer goods, and agricultural commodities expanded vigorously during 1994, as did the number of successful joint ventures among North American firms.

The peso crisis and the ensuing policy response have raised some concern about the near-term prospects for U.S trade relations with Mexico and the rest of the Hemisphere. Yet, all of the measures announced by Mexico thus far to deal with the crisis appear to be consistent with NAFTA and with Mexico's other international trade obligations. Few of the stabilization measures are directly trade-related, and the trade-related measures concern a small number of consumer nondurable goods (textiles and apparel, shoes, and leather goods). Originally announced on February 28, 1995 tariff hikes of 35 percent on some 502 products originating in countries with which Mexico does not have free-trade agreements formally became effective May 31. Not only do Mexico's international obligations appear to have influenced the policy response of the Mexican Government in a fairly orthodox direction that includes the removal of remaining economic distortions, but also they appear to have provided a more consistent framework for the conduct of U.S. trade that would not otherwise have existed.

Nevertheless, U.S. export prospects appear to be dimmer now than they appeared just 6 months ago, and concerns about possible investment diversion to and import surges from Mexico have been heightened. During the first four months of 1995, U.S. exports to Mexico were $13.9 billion, down by 8 percent over the previous year's levels. U.S. imports from Mexico were almost a third higher than they had been in the January-April 1994 period, reaching $19.6 billion. By June 1995, the number of workers certified under the NAFTA Transitional Adjustment Assistance Program had nearly doubled over yearend 1994 levels, to 34,400. California and New Jersey were added to the ranks of most impacted states. Thus, calls for the inclusion of currency coordination mechanisms in future trade agreements may grow stronger. Attention to implementation of NAFTA commitments will remain an important means of ensuring that U.S. relations with its number one and number three trading partners remain on track. Indeed, the June 7 meeting among NAFTA trade ministers was used to discuss ongoing disputes on agriculture and services, to relaunch tariff acceleration negotiations, to review progress in dumping and subsidies discussions, and to charge NAFTA's working groups and committees with preparing "forward looking" work plans.

Table 11
Selected problems in NAFTA implementation and potential causes

Issue/ Problem	Start-up difficulty	Lack of adminis-trative capacity	Poor com-munication	NAFTA Rules/ Proce-dures	Subs-tantive Con-flict	Political conflict/ interest group pressure	Notes
Cumber-some re-gional rules of origin	X	X		X			Changes in value-content rules for chemicals under consideration.
Inconsis-tent cus-toms ad-ministration	X	X	X				Ongoing discussions in NAFTA Committees and at working level.
Quota al-location, particularly agricultural	X	X	X	X	X		Ongoing discussions in NAFTA Committees.
Conflicts between Uruguay Round Agreement and NAFTA in agricul-ture	X			X	X	X	Dispute settlement regard-ing Canadian treatment of U.S. dairy, poultry and eggs, and U.S. treatment of Canadian sugar and sugar-containing products initi-ated.
Conflicts between NAFTA and other in-ternational or bilateral agreements (e.g., OECD/ fi-nancial ser-vices, Can-ada/ura-nium, Mexi-co/Latin American Integration Association (LAIA)	X			X			Changes in Canadian and Mexican practice an-nounced in response to OECD concerns; U.S. is-sued assurances to Canada regarding its agreement with Russia on uranium; Mexican negotiations with LAIA partners underway.
Sudden im-position of new techni-cal require-ments (standards) for indus-trial prod-ucts, pro-cessed foods, and agricultural produce	X	X	X	X	X	X	Some aspects of Mexico's standards-development process have improved, but its record on notification of new technical requirements in NAFTA's first year was poor. Onerous new require-ments have been imposed. Discussions are underway in NAFTA Committees.

Table continues on next page

Table 11—*Continued*
Selected problems in NAFTA implementation and potential causes

Issue/ Problem	Start-up difficulty	Lack of adminis-trative capacity	Poor com-munication	NAFTA Rules/ Proce-dures	Subs-tantive Con-flict	Political conflict/ Interest group pressure	Notes
Restrictive labeling and product certification rules	X	X	X	X	X		Mexico took an 4-year exception to certain NAFTA obligations on conformity assessment, which it has used to impose cumbersome procedures that are curbing U.S. exports.
Lack of national and most-favored-nation treatment in transportation services	X				X	X	Dispute settlement regarding Mexico's treatment of U.S. package delivery service firms has been initiated. In July, UPS announced it would no longer offer ground service between the United States and Mexico due to the problems.
Disagreement on dispute settlement rules	X				X	X	Trilateral rules were recently agreed upon, introducing additional transparency in the dispute settlement process.
Slowness in exchanging dispute settlement rosters	X	X					Rosters have recently been exchanged. Administrative capacity was a problem for Mexico because of its less extensive history of AD/CVD administration than that of the United States and Canada.

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SPECIAL FOCUS

Last Minute Trade Agreement Averts U.S. Sanctions Against Japanese Luxury Cars

Since 1993, the United States and Japan have concluded 14 market access agreements in a variety of areas, except automobiles and auto parts, the sector most critical to the U.S. manufacturing base, which constitutes 60 percent of the $66 billion annual U.S. trade deficit with Japan. Japan, the world's second largest single market for autos and the largest single market for auto parts, consumed nearly 6.5 million cars in 1994 and supported a parts market in excess of $100 billion.

Automobiles and auto parts were one of the sectors included in the U.S.-Japanese framework negotiations. The 20-month old negotiations focused on three key U.S. demands: gaining access to "high quality," new car dealerships in Japan, securing the deregulation of Japan's after-market for replacement auto parts, and persuading Japanese auto manufacturers to purchase more U.S. and other foreign auto parts. U.S. officials complained that the Japanese automotive market is protected from foreign competition by keiretsu-relationships and difficulties in establishing dealer networks. Government regulations and tight links among Japanese car makers, parts suppliers, dealers, and repair stations, meanwhile, make it hard for even world class U.S. parts suppliers to compete.

U.S. automakers maintain that their lack of success penetrating Japan's protected automotive market is due in large part to their inability to sell new cars through existing Japanese dealership networks. United States Trade Representative Mickey Kantor reported that only 20 percent of Japanese dealerships sell foreign and Japanese cars and only 7 percent sell American and Japanese cars. Since 1980, the Japanese Government has required that auto manufacturers omit clauses from their franchise agreements that limit a dealer's right to sell other manufacturers' cars. About half of all Japanese dealerships are at least partly owned by Japanese manufacturers. However, unlike in the United States, most Japanese dealerships continue to carry models produced by a single manufacturer. In a 1992 report, the Japan Fair Trade Commission (JFTC) stated that many Japanese dealerships were not aware that they were free to legally carry cars of competing manufacturers.

Ford, General Motors, and Chrysler have pledged to establish at least 1,200 "high-volume" dealerships in Japan over the next 3 years despite the enormous expense (high land prices) if Japan opens its market to foreign products. Ownership links between Japanese auto manufacturers and parts producers have made it very difficult for competitive U.S. and foreign parts producers to penetrate the Japanese parts market. A 1993 JFTC report stated that each of Japan's major auto manufacturers purchases its auto parts from an average of 392 parts producers. Orders for each part are normally divided between 2 to 5 suppliers, 80 percent of whom have worked with the car manufacturer for at least 5 years. The JFTC also reported that Japanese auto manufacturers own, on average, a 16-percent share of their parts suppliers.

Japan's replacement auto parts market is governed by a very complex, highly regulated system that effectively channels practically all repairs into government designated or certified garages. U.S. negotiators alleged that Japan's regulations tend to obstruct the introduction of foreign auto parts, produce higher prices for Japanese consumers, and guarantee significant profit margins for Japan's replacement parts producers. Nearly 40 percent of Japan's auto repair and maintenance is performed in association with regularly scheduled automobile inspections required by Japanese law. Repairs on a vehicle's drive train, steering, engine, transmission, shocks, and brakes can only be made legally by a certified garage. Many of Japan's 63,000 government certified and designated garages have an incentive to carry parts provided by related Japanese suppliers because the garages are owned by or affiliated with the dealers, auto manufacturers, or the original equipment parts suppliers. World class foreign producers, even with significant price advantages because of the soaring yen, have been unable to lure Japanese buyers to loosen their keiretsu relationships.

To address these problems, U.S. negotiators proposed that Japanese auto manufacturers renew and expand "voluntary" auto parts procurement programs first negotiated by the Bush administration. Japan's leading auto manufacturers 'voluntarily' published parts procurement plans in 1992 in which they pledged to purchase $8 billion in U.S.-made auto parts. The plan called for Japanese auto manufacturers to increase their purchases of U.S. auto parts to $20 billion by 1995. However, when the plans expired on March 31, 1995, Japanese automakers refused to renew them. U.S. negotiators insisted that such plans be central to any agreement and would be the most effective means of loosening existing keiretsu relationships.

Ambassador Kantor remarked on June 21 that the United States would not embrace any compromise proposal by Japanese auto manufacturers "unless it was formally endorsed by the Japanese Government." U.S. sources also noted that the rumors of a possible settlement never mentioned an increase in Japanese imports of U.S.-made auto parts. Responding to a rumor that leading Japanese automakers would

increase the local content of their vehicles produced in North America. U.S. negotiators pointed out that Japanese automakers could increase the level of local content by, instead of buying U.S.-made parts, purchasing more parts from Japanese-owned factories located in the United States.

Japanese Position

The Japanese insisted that their automotive market was not closed. Japanese negotiators said that their auto manufacturers expended an enormous effort and large sums of money to penetrate the U.S. market, whereas the Big Three have put forth minimal effort to crack Japan's automotive market. Japanese industry sources cited poor image, reliability problems, and the lack of an effective marketing strategy as the principal reasons that U.S. car manufacturers have such a low market share in Japan.

Japanese officials noted that European auto manufacturers have made greater inroads in the Japanese market, commanding a market share of 4.86 percent as compared with 3.16 percent for U.S. automakers. European auto manufacturers, especially the Germans, are prospering because they devoted millions of dollars during the 1980s to create their own exclusive national dealership networks. European manufacturers have introduced 154 models of standard right-hand drive cars into the Japanese market, whereas the Big Three have only introduced three right-hand drive models.

Japanese officials also noted that nearly 80 percent of the cars sold in Japan are compact models with engines under two-liters in size. The Big Three have focused their marketing efforts almost exclusively on large cars. In the three-liter and above market, U.S. manufacturers command 30 percent of the Japanese market. Japanese officials also alleged that U.S. models tend to be more expensive than their Japanese counterparts. Nonetheless, Chrysler and Ford doubled their sales during 1994 with the introduction of popular right-hand steering models of Chrysler's Mini-van and Jeep Cherokee and of Ford's Probe and Mondeo. Ford has invested in its own Japanese dealership network and plans to introduce right-hand Taurus and Explorer models later in 1995. However, most of its cars are manufactured in Hiroshima by Mazda, Ford's 25 percent owned Japanese affiliate.

Japanese officials maintained that the two sides were near an agreement on access to dealerships and deregulation of the replacement parts market, but talks broke down on May 5 over U.S. insistence that Japanese auto manufacturers announce "voluntary" plans to buy more U.S. auto parts and components. Japanese negotiators reported that the United States was insisting that Japanese automakers increase their pledges by 20 to 30 percent above targets agreed to in 1992. Japanese negotiators, according to the *Washington Post*, "angrily denounced U.S. demands as tantamount to numerically managed trade." It further reported that the Minister of Industry and Trade, Ryutaro Hashimoto, remarked, "if the United States had not insisted [on voluntary plans] we could have reached an agreement without difficulty. Another U.S. request for a target on the number of dealerships offering foreign brands made resolution all the more difficult. We truly believe we have affirmatively responded to all the U.S. requests on dealerships and after market deregulation—the major issues properly within the government's responsibility—within the international rules and auto safety considerations in Japan."

The Japanese Government also refused a U.S. demand that it use its influence with Japanese auto manufacturers to persuade their dealers to carry U.S. products. Japanese negotiators stated that such an action would violate and artificially distort market mechanisms. They insisted that, in Japan's free market, Japanese dealerships are already free to carry both foreign and domestic products.

U.S. Sanctions

After 20 months of futile negotiations, on May 10, 1995, the Clinton Administration announced that it would impose punitive economic sanctions on certain Japanese exports. Ambassador Kantor indicated that the administration's efforts to gain access to Japan's automobiles and auto parts markets would follow a two-tracked approach. The administration announced that it would initiate an action under Section 301 of the 1974 Trade Act and that it had notified the World Trade Organization (WTO) of its plans to initiate a dispute settlement procedure within 45 days against the Japanese.

On May 9, 1995, in a letter to Mr. Renato Ruggiero, Director General of the WTO, Ambassador Kantor gave a pre-filing notification that the United States intended to invoke the WTO's dispute settlement mechanism to challenge hidden and informal Japanese business practices and regulations that discriminate against the sale of U.S. and competitive foreign automobiles and auto parts. Ambassador Kantor alleged that Japan had failed to carry out its obligations under the WTO, citing statistics demonstrating stark differences in the level of import penetration in Japan compared with that in other countries. Over the last 25 years, Japan has sold approximately 40 million automobiles in the United States, whereas U.S. automakers have only shipped 400,000 automobiles to Japan. The import market share of foreign automobiles

in the Japanese market during 1994 was 4.7 percent compared with 33 percent in the United States and 30 percent in all other G-7 countries. Foreign auto parts accounted for only 2.6 percent of Japan's market as compared with 33 percent of the market of the United States and with 16 to 60 percent of that of all other G-7 countries. Japanese consumption of U.S. auto parts grew to $1.5 billion in 1994, but such imports represented only 1.4 percent of the total market.

On May 17, 1995, Ambassador Kantor announced the administration's decision to place a 100-percent tariff on imports of certain Japanese luxury cars, under Section 301, in response to Japan's continued discrimination against competitive U.S. and foreign products. The 100-percent tariff would affect imports of 13 luxury-class car models manufactured in Japan by Toyota (Lexus), Nissan (Infiniti), Mazda, Mitsubishi, and Honda (Acura). Sanctions would apply to Japanese car models priced above $33,000. During 1994, 200,000 Japanese cars, valued at $5.9 billion, were imported into the United States above the $33,000 price threshold. Luxury models represented 12.5 percent of Japan's vehicle imports during 1994 by unit volume and 20 percent by value. The tariff increase, scheduled to become effective in late June, was to be retroactive from May 20. The administration announced that the sanctions would be canceled if the United States and Japan were to reach an agreement by June 28, 1995.

On May 17, the Japanese Government formally launched a procedure directed at having the United States' proposed punitive tariffs on imports of Japanese luxury cars be pronounced unlawful by the WTO. Japanese automakers repeated their contention that, because unilateral sanctions violated international trade rules, the proposed sanctions were illegal, a view shared by the majority of Japan's principal trading partners. The Japanese Government indicated that it was also considering its own sanctions against U.S. exports should the United States impose Section 301 sanctions against Japanese auto parts.

Japan continued to reject U.S. demands that it increase its purchases of U.S.-made auto parts. Fred Bergston, Director of the Institute for International Economics was quoted in *The Wall Street Journal* saying that "both sides got locked in positions that didn't make a lot of sense, but they felt powerless to change them." Unofficially, negotiators from both nations conceded that each had seriously miscalculated the other's resolve and that neither could find a means to resolve the conflict. Minister Hashimoto reportedly said that Japan would not acquiesce to U.S. demands because doing so would erode Japan's international credibility.

Reaction In Western Europe

The European Union (EU) condemned the United States for threatening unilateral punitive sanctions on the Japanese auto industry. Sir Leon Brittan, European Commission Vice-President for External Relations, characterized U.S. threats as a danger to the multilateral trading system and to the credibility of the newly established WTO. Sir Leon also stated that such sanctions would be discriminatory and antithetical to WTO rules because they would be in violation of "most-favored-nation trade preferences and dispute settlement obligations." He also expressed concerns that any bilateral agreement between the United States and Japan would be to the advantage of the Big Three and at the expense of the European automakers. On June 16, EU officials threatened to initiate a WTO case against the United States and Japan if an agreement between the two threatened the interests of EU car manufacturers. Sir Leon Brittan also remarked that there is room for Japan to open its markets for foreign competition, especially in the automobile and auto parts market.

After considerable lobbying behind the scenes by both Japan and the United States, Ministers at the Organization for Economic Cooperation and Development (OECD) meeting in Paris in May issued a statement saying that members should "resist protectionism in all of its forms and [should] remove impediments to the openness of national markets to global competition." The Ministers criticized the United States for acting unilaterally by sidestepping WTO procedures, but some privately expressed empathy for efforts to open Japan's automotive markets. Guenter Rexrodt, Germany's Economics Minister, reportedly said that "in principal we support the U.S. position because we think Japan has to behave like a normal player in the world economy."

The New York Times opined that the EU "was playing each side against the other in an effort to secure gains in the Japanese auto market for its companies while emerging with the image as the ultimate protector of free trade." The EU uses import quotas and local content rules to limit Japanese penetration in the EU automotive market. EU and Japanese negotiators set import quotas of 1995 at 1,105,000 Japanese cars and light trucks, representing an 11 percent market share ceiling. This represents an increase of 11.2 percent over 1994's quota of 993,000 vehicles. Currently Japanese imports constitute 16 percent of the EU market.

Ironically, many industry experts believe that luxury European auto manufacturers would have been a major beneficiary if sanctions had been imposed. In

recent years, both Mercedes-Benz and BMW have restyled their car models and lowered their prices to compete with Japanese luxury models. Donna Boland, spokesperson for Mercedes-Benz of North America, told the *Washington Post* that "a trade war is not to anyone's benefit, but if you're asking are we going to sell more cars if a competitor is forced out of the U.S. market, the answer is of course, yes." In fact, the EU and Japan signed a modest agreement in June making it easier for European car manufacturers to pass Japan's complicated inspection requirements in order to obtain certification for the sale of their cars. Formerly, European car producers had to send their cars to Japan for extensive and costly testing. Under the new agreement, Japanese officials will now travel to Europe to conduct the testing. Regulations requiring EU manufacturers test-drive their cars in Japan to prove that their emissions control systems would last 50,000 miles have also been changed. Official test data from the companies will now be sufficient. The EU and Japan also had discussions to ease rules for selling auto parts to Japan.

WTO Meetings

Eager to dodge a panel determination that would embarrass either the United States or Japan, WTO Director General Renato Ruggiero implored the two nations to resolve their differences themselves. Foreign trade officials reported that Director Ruggiero was uncomfortable with the U.S.-Japanese auto dispute becoming the initial test of the WTO's legal powers and that, according to *The New York Times*, he called this argument "a delicate matter with nationalist implications" for both the United States and Japan. Officials of both nations meet on several occasions during early June.

A decision against the United States would have fueled anti-WTO sentiments on Capital Hill, would have possibly threaten the future of the WTO, and would have impeded the ability of the United States to initiate unilateral Section 301 actions. A ruling against Japan would have challenged the legality of Japan's firmly established industrial structure and its interlocking keiretsu relationships.

The Agreement

Rumors of a possible settlement began to circulate a week before the June 28 deadline. One of Japan's leading daily financial newspapers, the *Nihon Keizai Shimbun*, reported that all five of Japan's major auto producers were signaling a strong desire to compromise. The same source indicated that Japanese auto manufacturers were preparing to announce detailed voluntary, nonbonding pledges to increase their auto production in their North American "transplant" factories and to raise the percentage of local parts content of those vehicles. It also reported that Toyota, in particular, would boost its North American production and raise the percentage of local content. Toyota, according to the *Nihon Keizai Shimbun*, was also studying a proposal to add three or four new U.S.-manufactured models to its sales lineup. An agreement became possible when the Clinton Administration dropped two of its chief demands, namely, verifiable numerical targets and a formal endorsement from the Japanese Government for any voluntary plan proposed by Japanese automakers. Instead of insisting on a formal guarantee from the Japanese Government for numerical targets, U.S. negotiators accepted voluntary purchasing plans from Japanese automakers.

Ambassador Kantor, according to the *Washington Post*, said that this agreement was "a great victory for the American people because it would bolster exports to Japan by U.S. automakers and create thousands of jobs." Also, he stated in a June 28 press release that the agreement meets U.S. goals by deregulating Japan's replacement market, giving U.S. automakers access to Japan's dealership networks, and by increasing purchases of U.S.-made original equipment parts. Consequently, the agreement "clears away layers of needless regulations, introducing new competition and opening a market previously reserved for Japanese suppliers. [The] agreement will give U.S. auto companies access to Japanese dealership networks [and he] expects U.S. auto companies to open an additional 200 outlets by 1996 and 1,000 new outlets by 2000 supporting the industry's objective of exporting 300,000 vehicles by the year 2000."

According to Ambassador Kantor, Japan's Big Five automakers pledged to increase their parts purchases in North America, "including diversification into high-value components such as transmissions and engines;" and to increase the number of vehicles produced in their North American plants from 2.1 million in 1995 to 2.65 million in 1998. Toyota, alone, pledged to increase its annual North American production capacity from 900,000 units in 1996 to 1.1 million in 1998. They also agreed to increase their purchases of U.S.-made auto parts for their U.S. plants by $6.75 billion and by $2 billion in U.S.-made parts for their factories in Japan by 1998. Japan's leading automakers plan to comply with NAFTA rules of origin by increasing the percentage of North American content to 65 percent by 1998.

The agreement obliges the Japanese Government to begin the deregulation of its replacement parts market and obliges it to reassure Japanese auto dealers that they are free to sell U.S.-made cars alongside Japanese

products. The Japanese Government pledged to review its critical parts list and to reduce the number of parts on the list that can only be replaced by government designated garages. The Government agreed to relax its certification criteria for parts and to remove struts, shock absorbers, power steering, and trailer hitches from the critical parts list. Regulations will be issued in the near future that loosen regulations to permit noncertified garages to perform inspections. U.S. officials estimate that between 7,000 to 8,000 nonaffiliated, nonkeiretsu garages will qualify for licenses, improving access to the designated garage market.

A joint announcement was issued on June 28 by Japanese Minister of International Trade Hashimoto and by Ambassador Kantor stating that they "recognize and understand that the plans newly announced by the U.S. or Japanese companies are not commitments and are not subject to trade remedy laws of either country. Rather, they are business forecasts and intentions of the companies based on their study of market conditions and other factors." They also acknowledged "that changes in market conditions may affect the fulfillment of these plans." The agreement also put into place a monitoring process. The Office of the United States Trade Representative reported that "both governments will review periodically a detailed set of quantitative and qualitative criteria to access whether the agreement in working. Examples of criteria in the auto agreement include the change in imports of auto parts into Japan—for both the aftermarket and the original equipment market. If these criteria show that progress is not being made, [the United States] would consider appropriate steps to remedy the situation, including the use of our trade laws."

Japanese Minister Hashimoto stated that the estimated dollar figures projected by U.S. negotiators, as to the value of future Japanese purchases of U.S.-made auto parts, are strictly those of the United States and are "neither shared by [Minister Hashimoto] nor the Government of Japan." *The New York Times* reported that Minister Hashimoto also stated that "the Government of Japan has had no involvement in [these] forecasts because it is beyond the scope and responsibility of government."

U.S.-Canada Trade Relations: An Update

The bilateral trading relationship between the United States and Canada is both extensive and well managed. Canada sent 80 percent of its 1994 exports to the United States. Canada also predominates as a destination for U.S. exports, buying twice as much from the United States as Japan does and accounting for 17 percent of U.S. exports in 1994, when U.S. exports totaled over $103 billion. Bilateral trade between Canada and the United States rose from $200 billion in 1989 to $270 billion in 1994—or by 35 percent in the 6 years since the United States-Canada Free Trade Agreement (CFTA) entered in force.

Ninety-five percent of the trade between Canada and the United States is conducted without any disputes. Problems that do arise are handled under the NAFTA rubric or through direct bilateral discussions. The consultative mechanisms and dispute resolution procedures of the North American Free Trade Agreement (NAFTA) provide vehicles for resolving many bilateral trade disputes. These were modeled on the innovative mechanisms created by the CFTA.

Canada has been somewhat aggressive in pursuing an activist approach to the expansion of NAFTA. For example, prior to last December's Summit of the Americas, it had already endorsed including Chile in the negotiating process. Formal negotiations leading to the accession of Chile to the NAFTA pact began in Toronto on June 7 between the three NAFTA partners and Chile. Meanwhile, Canada continues to press for a broader network of alliances, recently suggesting that the EU should one day be included under the NAFTA umbrella. The suggestion for a Trans-Atlantic Free Trade Agreement, or TAFTA, is under consideration.

This article addresses some of the bilateral trading relationship issues that receive particular attention on either side of the border.

Dairy and Poultry

On February 2, Ambassador Kantor wrote Trade Minister MacLaren requesting formal consultations under the NAFTA dispute settlement provisions on Canadian tariffs on dairy, egg, and poultry products. The United States is concerned about the "over-quota tariffs" Canada applied to a wide range of U.S. dairy, poultry, and egg products beginning January 1, 1995, when it implemented the Uruguay Round. The United States contends that a key provision of the CFTA, which was subsequently incorporated into NAFTA, prohibits Canada and the United States from imposing new tariffs on each other and obliges Canada and the United States to eliminate all tariffs affecting bilateral trade by 1998. Canada maintains that its Uruguay Round obligations supersede its NAFTA commitments, and thereby permit application of these very high tariffs to U.S. products.

Consultations, being a required first step in the NAFTA dispute settlement process, were held on June 7 at the NAFTA Commission session. The United States sought an explanation from Canada as to the legal basis for its application of the tariffs to U.S. products. The course this issue will ultimately take is

unclear, but submitting the matter to a NAFTA dispute settlement panel remains a likely option. The earliest date by which such action could be taken is July 10 because NAFTA rules require that 30 days pass between consultations and a formal request for a dispute panel. This would be the first dispute settlement panel under NAFTA, Chapter 20. Chapter 20 of the accord addresses trade disputes other than those stemming from actions under the trade remedy laws of signatory nations, which are covered by Chapter 19. Canada wants to avoid submitting the dispute to a panel, but has also indicated that it is not at present in a position to negotiate a resolution to the matter.

Canadian dairy, poultry, and egg producers are generously assisted by supply management programs under which production quotas are established for each Province and each producer. Prices for these products are set by government-controlled committees that ensure that producer returns cover costs of production. With the government effectively guaranteeing recovery of producer costs, the costs of the program have steadily escalated, widening the gap between U.S. and Canadian prices. To protect the domestic system from being undermined by lower priced U.S. imports, strict import quotas have been an integral part of Canadian supply-management systems.

Since tariff protection was essentially superfluous with quotas in place, Canada agreed to phase out tariffs on these products (as well as on all other goods) in the context of the CFTA. This provision was incorporated into the NAFTA. However, the Uruguay Round required the conversion of all non-tariff barriers to tariff-rate quotas. The U.S. position is that the NAFTA requires the elimination of all existing tariffs and prohibits the introduction of any new tariffs between the United States and Canada. The Uruguay Round Agreement prohibits the use of nontariff barriers.

Simply put, the Uruguay Round and NAFTA agreements prevent the United States and Canada from maintaining, or introducing, tariffs or non-tariff barriers against each other. The United States maintains that these two commitments rising out of separate agreements do not conflict. However, the Canadian view is that there is a conflict and that the Uruguay Round obligations take precedence.

Canada's dairy and poultry sectors are heavily concentrated in the Province of Quebec. Consequently, the supply-management issue is often viewed in the context of the national unity issue. The intensity of the Canadian Government's defense of supply-management programs is seen by many in Quebec as a barometer of the Federal government's commitment to addressing issues of importance to Quebec. Hence, the issue has taken on a political dimension that transcends its economic importance and compounds the difficulty of resolving the bilateral problem.

Canadian Communications Practices

The United States is concerned about Canadian trade policies intended to protect Canadian "cultural" industries (publishing, broadcasting, sound recording, and film) by discriminating against U.S. interests. While the Government of Canada protects these industries in Canada and the political sensitivity of these issues is a given, the U.S. position is that this Canadian objective should not be achieved through discrimination against U.S. businesses. U.S. industry expects that the U.S. Government will respond forcefully to Canadian policies that discriminate against their interests in Canada.

Protection of cultural industries is an extremely sensitive and longstanding policy objective supported by Canadian nationalists. Because of the political sensitivity of these issues in Canada, the Canadian Government insisted that these sectors be exempted from CFTA and NAFTA obligations. The United States agreed, but maintained the right to retaliate if Canada acts in a manner harmful to U.S. interests in these sectors. In the last election Prime Minister Chrétien campaigned for office on a pledge to do more to protect Canadian "culture" from domination by U.S. interests.

On February 6, 1995, USTR initiated a Section 301 investigation of the Canadian Radio-television and Telecommunications Commission (CRTC) practice of denying U.S.-owned television programming services authorization to broadcast in Canada if such services are directly competitive with a Canadian-owned service. (The U.S. counterpart of the CRTC is the Federal Communications Commission.) The investigation was initiated at the request of Country Music Television (CMT), a Nashville, Tennessee, cable-based service. The CRTC terminated CMT's authorization to be distributed in Canada once a Canadian-owned licensee became available. Thus, effective January 1, 1995, CMT was removed from the Canadian market after 10 years of successful operation. A Canadian version of CMT has since been airing in its place. Other U.S.-owned services, such as MTV and HBO have never been authorized to operate in the Canadian market because of Canada's policy of protecting cultural industries. On May 17, Ambassador Kantor warned in a letter to Canadian Trade Minister MacLaren that June 21 was the date by which a list of retaliatory trade sanctions would be issued. The list would cover certain Canadian telephone and broadcasting services against which action could be

taken for the Canadian decision to block CMT. The trade action was averted at the last minute when CMT agreed to a merger with the Canadian cable service that replaced it last January. The action will allow CMT to return to Canadian cable service. The Canadian law that precipitated the action, however, remains unchanged. Ambassador Kantor has requested that Canada suspend the CRTC practice of evicting foreign-owned services when regulators determine there is a directly competitive Canadian-owned operation and review the appropriateness of the underlying policy of discrimination or face retaliation. There have been indications that some Canadian trade officials are pushing for such a review, but others in the Canadian Cabinet are fighting for protectionism. U.S. spokesmen are hopeful that a broad review of Canadian broadcasting and telecommunications policies, currently underway, could result in the elimination of the competitive services policy.

Adding to the U.S. concern, the Government of Canada recently introduced legislation to protect Canadian publishing and copyright interests. The publishing legislation is designed to prevent Time-Warner from continuing to publish a Canadian edition of *Sports Illustrated* through imposition of an 80 percent tax on advertising revenue in such editions. So-called "split-run" magazines are the target of the legislation. They are publications that contain advertisements directed at Canadian consumers, but that have more than 20 percent of the editorial material of non-Canadian origin.

The copyright legislation is designed to establish a levy on the sale of blank audio tapes. The revenues from the levy are intended to compensate performers and producers for the unauthorized reproduction of their works in Canada. The legislation may deny U.S. performers and producers a share of these revenues, which may be given instead to Canadian performers and producers.

In addition to these bilateral issues, Canada is attempting to have "cultural" protectionism sanctioned in multilateral fora, such as the Summit of the Americas, and in discussions regarding the Global Information Infrastructure (GII). At the Summit, the Canadians introduced language that would have justified their continued policy of cultural protectionism, specifically with regard to programming material transmitted over the GII. The United States introduced language that modified Canada's proposal, although Canada may be expected to interpret the language in a manner that justifies its policy.

Softwood Lumber

The longstanding dispute on softwood lumber is being managed through a bilateral consultative process established on December 15, 1994. When the agreement was reached, the Department of Commerce agreed to refund approximately $450 million in countervailing duty cash deposits collected on Canadian lumber since 1992. Also as a result of establishing the consultative process, the U.S. industry agreed to drop its lawsuit challenging the constitutionality of the NAFTA dispute settlement process for antidumping (AD)/countervailing (CVD) cases. The challenge had resulted from a series of binational dispute settlement panel decisions brought and won by Canada on softwood lumber. By establishing this ongoing consultative dialogue, both sides hope to address their respective concerns without resorting to contentious trade litigation. The first meetings under the consultative process were held in March, May, and July. The July meeting addressed forest management issues and the differences in land ownership in each country. A future meeting is scheduled for September. Meanwhile, calls for excluding the AD/CVD dispute settlement procedure from any extension of NAFTA have recently been made by lumber and other industry interests in the United States.

Sugar/Cuba

The Canadian private sector is beginning to react to a bill that is presently under consideration by the U.S. Congress. The bill would tighten the 31-year-old embargo that the United States maintains against Cuba. The Cuban Liberty and Democratic Solidarity Act (H.R.-927), sponsored by Sen. Jesse Helms (R-NC) and Rep. Dan Burton (R-IN), would punish any person, firm, or country that does business with Cuba. More specifically, the Act would bar the United States from importing sugar and high-content sugar products from any country that buys sugar from Cuba. This would include sugar from Canada, Mexico, Japan, Brazil, and several European countries. The bill also seeks to restore rights to confiscated property in Cuba and set terms for lifting the embargo. The administration has taken a position against the bill, questioning certain of its elements. The Canadian Federal Government has formally protested the legislation. Canada maintains that the bill is an example of extra-territorial application of U.S. law. Cuba is currently Canada's second largest trading partner in the Caribbean, after Puerto Rico.

On March 17, 1995, Canada initiated an investigation into allegations by the Canadian Sugar Institute that sugar from the United States has been subsidized and dumped in the Canadian market. The case came on the heels of a recent U.S. decision to alter its import restrictions on sugar and sugar products, an action that could jeopardize as many as 2,400 jobs in the Canadian sugar industry.

Canadian Wheat Board

The Canadian Wheat Board (CWB) is increasingly under attack on both sides of the border. The Alberta Barley Commission is challenging the constitutionality of the law governing the CWB and wants to remove barley from the Board's control. U.S. wheat growers, on the other hand, have recently released studies calling the CWB "the single most price-disruptive factor in the world wheat market, undercutting all other competitors' prices," a charge labeled by Canada as inflammatory and flawed.

The highly contentious wheat dispute was settled on September 26, 1994 through a Memorandum of Understanding (MOU) establishing limits on the amount of Canadian grain exported to the United States for a 12-month period ending September 11, 1995. The agreement also established a Joint Commission on Grains to examine all aspects of bilateral marketing and supports systems for grain. The Commission, having submitted initial findings to both governments on June 12, will conclude its work on September 11 when the MOU expires. Among the possible recommendations that the Joint Commission could make to the two governments are the following: adopting a common system for grading grains; eliminating Canada's end-use certificates; dropping the existing import cap and replacing it with a monitoring/early warning system; and changing/eliminating the U.S. Export Enhancement Program while also eliminating the CWB's monopoly on certain grain sales. The June preliminary report by the Joint Commission on Grains is likely to lead to additional bilateral talks on outstanding grain-trade issues. Both countries hope that the Commission's recommendations will be helpful in developing a mutually acceptable resolution of concerns over bilateral trade in grains.

Trade Remedies

Prime Minister Chrétien is particularly interested in talks under NAFTA in the Antidumping/ Countervailing Duties Working Groups. The Canadians would like to work toward a harmonization of policies that would ultimately make possible elimination of AD actions and CVD within the free-trade area. Elimination by such far-reaching reforms as competition law harmonization is unlikely from the U.S. vantage point, but in order to be responsive to Canadian concerns, the United States agreed to trilateral discussions in December 1993. The groups are due to complete their work in December 1995.

The first trilateral meeting of the Working Groups was held in Mexico City in mid-February. The United States stated that there are issues involving all three NAFTA countries' AD and CVD practices that can be addressed in this forum and that the Working Group's recommendations will be studied seriously. Canada reportedly took a more pragmatic approach at the February meeting, suggesting such changes as exempting NAFTA partners from cumulation and the need for uniform methodologies for reaching dumping and subsidy determinations. Sectoral exemptions in industries, such as steel, were also proposed.

A second meeting of the working group was held in mid-May. At the NAFTA Free Trade Commission meeting on June 7, a brief discussion was held on the subject of possible changes in the use of trade remedy laws in the North American market. While legislative changes are not contemplated, regulatory and procedural changes in the administration of such laws are possible outcomes.

A third meeting of the working group is scheduled for July.

Active cases involved in bilateral trade

As of early July 1995, there was one case involving imports from the United States before the Canadian International Trade Tribunal (CITT). The case was a review of a 1986 dumping case involving potatoes from Washington state (CITT case No. RR-94-007). There are currently no Title VII cases involving imports from Canada before the USITC.

In the last fiscal year, the CITT handled three dumping cases involving products from the United States: Baled Twine (NQ-93-003), Corrosion Resistant Steel Sheet Products (NQ-93-007), and Delicious/ Golden Delicious Apples (NQ-93-001). Last year the CITT also conducted two reviews of previously determined dumping decisions: Induction Motors (RR-93-004) and Beer (RR-94-001).

Earlier this year, two cases were initiated by Revenue Canada (the agency similar to ITA in the Canadian disposition of cases): Refined Sugar, a dumping and subsidy investigation, 3/17/95 and Caps, Lids and Jars (Suitable for Home Canning), a dumping investigation, 3/24/95. The preliminary determination in the sugar case was expected on June 15, but was delayed for 30 to 45 days. The preliminary decision on Caps, Lids, and Jars was rendered on June 22 and means that the CITT will continue its inquiry into the question of material injury.

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STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1991-April 1995
(Total industrial production, 1985=100)

Country	1991	1992	1993	1994 I	II	III	IV	Nov.	Dec.	1995 I	Jan.	Feb.	Mar.	Apr.
United States[1]	104.2	104.3	109.2	115.7	117.4	118.8	120.4	120.3	121.7	122.1	122.0	122.0	121.6	121.1
Japan	127.7	120.4	115.3	90.3	90.6	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Canada[3]	113.8	114.9	118.0	100.1	105.5	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Germany[4]	100.0	98.1	91.5	92.6	94.6	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
United Kingdom	109.0	108.6	111.1	104.9	101.4	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
France	114.2	112.9	108.6	100.2	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Italy	116.8	115.3	112.8	101.1	107.1	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)

1 1987=100.
2 Not available.
3 Real domestic product.
4 1991=100.

Source: *Main Economic Indicators;* Organization for Economic Cooperation and Development, November 1994, *Federal Reserve Statistical Release*; May 16, 1995.

Consumer prices, by selected countries and by specified periods, Jan. 1992-March 1995
(Percentage change from same period of previous year)

Country	1992	1993	1994	1994 I	II	III	IV	Sept.	Oct.	Nov.	Dec.	1995 I	Jan.	Feb.	Mar.
United States	3.0	3.0	2.6	2.5	2.4	2.9	2.7	3.0	2.6	2.7	2.7	2.8	2.8	2.9	2.9
Japan	1.6	1.3	0.7	1.2	0.7	0.0	0.8	0.2	0.7	1.0	0.7	(1)	0.6	0.2	(1)
Canada	1.5	1.8	0.2	0.6	0.0	0.2	0.0	0.2	-0.2	-0.1	0.2	1.6	0.6	1.8	2.2
Germany	4.0	4.2	3.0	3.3	3.0	3.0	2.8	3.0	2.8	2.7	2.7	2.3	2.3	2.4	2.3
United Kingdom	3.7	1.6	2.5	2.4	2.6	2.3	2.6	2.2	2.4	2.6	2.9	3.4	3.3	3.4	3.5
France	2.4	2.0	1.7	1.7	1.7	3.8	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.8
Italy	5.1	4.4	1.0	4.3	3.9	3.8	4.0	3.8	3.8	3.9	4.2	4.4	4.0	4.5	4.9

1 Not available.

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, May 1995.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, Jan. 1992-March 1995

Country	1992	1993	1994	1994 I	II	III	IV	Nov.	Dec.	1995 I	Jan.	Feb.	Mar.
United States	7.4	6.8	6.1	6.6	6.2	6.0	5.6	5.6	5.4	5.5	5.7	5.4	5.5
Japan	2.2	2.5	2.9	2.8	2.9	3.0	3.0	2.9	3.0	(2)	2.9	3.0	(2)
Canada	11.3	11.2	10.3	11.0	10.7	10.2	9.7	9.6	9.6	9.7	9.7	9.6	9.7
Germany	4.6	5.8	6.5	6.4	6.5	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4
United Kingdom	10.0	10.4	9.5	9.9	9.7	9.6	9.0	9.0	8.8	8.7	8.8	8.7	8.6
France	10.2	11.3	12.3	12.3	12.4	12.4	12.3	12.3	12.3	(2)	12.2	12.1	(2)
Italy	7.3	10.3	11.4	11.2	11.9	11.4	12.0	(3)	(3)	(2)	12.2	(3)	(3)

1 Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
2 Not available.
3 Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, May 1995.

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Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1992-April 1995
(Percentage, annual rates)

Country	1992	1993	1994	1994							1995				
				I	II	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
United States	3.7	3.2	4.6	3.4	4.3	4.8	5.8	5.5	5.7	6.2	6.2	6.2	6.2	6.1	6.1
Japan	4.4	2.9	2.2	2.2	2.1	2.2	2.3	2.3	2.3	2.3	2.2	2.3	2.3	2.1	(2)
Canada	6.7	5.1	5.5	4.0	5.7	5.8	5.9	5.6	5.7	6.7	8.1	7.8	8.4	8.3	(2)
Germany	9.4	7.1	4.0	5.7	5.1	4.8	5.1	5.1	5.1	5.2	4.9	5.0	5.0	4.9	(2)
United Kingdom	9.5	5.8	5.4	5.2	5.1	5.3	6.0	5.8	5.9	6.3	6.6	6.5	6.7	6.6	(2)
France	10.1	8.3	5.7	6.1	5.5	5.5	5.5	5.5	5.4	5.8	5.7	5.7	5.7	7.7	(2)
Italy	13.9	10.0	8.4	8.3	7.9	8.5	8.8	8.8	8.7	8.9	9.7	9.1	9.1	10.9	(2)

1 90-day certificate of deposit.
2 Not available.

Source: *Federal Reserve Statistical Release*, May 30, 1995 *Federal Reserve Bulletin*, May 1995.

Effective exchange rates of the U.S. dollar, by specified periods, Jan. 1992-May 1995
(Percentage change from previous period)

Item	1992	1993	1994	1994				1995					
				II	III	IV	Dec.	I	Jan.	Feb.	Mar.	Apr.	May
Unadjusted:													
Index[1]	97.0	100.1	98.5	100.0	96.5	95.9	97.4	96.0	97.0	96.0	92.4	89.3	89.9
Percentage change	-1.5	3.1	-1.6	-1.6	-3.5	-.6	1.9	.1	-.4	-1.0	-3.6	-3.3	.6
Adjusted:													
Index[1]	100.9	104.2	101.5	103.5	99.9	98.0	99.3	95.1	98.4	96.8	92.9	90.5	91.0
Percentage change	-.1	3.3	-2.7	-1.2	-3.6	-1.9	1.5	-2.9	-.9	-1.6	-3.9	-2.6	.5

1 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, June 1995.

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Trade balances, by selected countries and by specified periods, Jan. 1992-March 1995

(In billions of U.S. dollars, Exports less Imports (f.o.b - c.i.f), at an annual rate)

				1994				1995			
Country	1992	1993	1994	II	III	IV	Dec.	I	Jan.	Feb.	Mar.
United States[1]	-84.5	-115.7	-151.3	-152.4	-164.5	-157.1	-139.7	-167.5	-190.9	-160.6	-151.1
Japan	106.4	120.3	(2)	121.9	113.5	(2)	(2)	(2)	(2)	(2)	(2)
Canada[3]	12.1	13.3	(2)	14.7	19.3	(2)	(2)	(2)	(2)	(2)	(2)
Germany	21.0	35.8	(2)	51.7	40.2	(2)	(2)	(2)	(2)	(2)	(2)
United Kingdom	-30.8	-25.5	(2)	-21.4	-15.3	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	5.8	15.8	(2)	14.8	15.6	(2)	(2)	(2)	(2)	(2)	(2)
Italy	-6.6	20.6	(2)	21.6	27.6	(2)	(2)	(2)	(2)	(2)	(2)

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f.value.
[2] Not available.
[3] Imports are f.o.b.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 18, 1995; *Main Economic Indicators;* Organization for Economic Cooperation and Development, January 1995.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1992-March 1995

(In billions of dollars)

				1994				1995			
Country	1992	1993	1994	II	III	IV	Dec.	I	Jan.	Feb.	Mar.
Commodity categories:											
Agriculture	18.6	17.8	19.0	3.6	3.8	6.9	2.3	6.2	1.9	2.2	2.1
Petroleum and selected product—(unadjusted)	-43.9	-45.7	-47.5	-11.9	-14.0	-11.5	-3.6	-11.6	-3.8	-3.5	-4.3
Manufactured goods	-86.7	-115.3	-155.7	-33.8	-44.3	-47.5	-12.4	-40.3	-15.0	-12.3	-13.0
Selected countries:											
Western Europe	6.2	-1.4	-12.5	-2.3	-5.4	-3.6	-.2	-.1	.1	-.5	.3
Canada	-7.9	-10.2	-14.5	-3.0	-3.7	-4.8	-1.5	-2.4	-1.0	-.9	-.5
Japan	-49.4	-59.9	-65.6	-15.4	-16.8	-18.2	-6.1	-15.0	-4.6	-4.6	-5.8
OPEC (unadjusted)	-11.2	-11.6	-13.8	-3.7	-4.8	-3.2	-.9	-1.6	-.3	-.7	-.6
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$16.80	$15.13	$14.22	$13.98	$15.70	$14.95	$14.71	$15.43	$15.05	$15.50	$15.76

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 18, 1995.

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